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UNCLAS SECTION 01 OF 04 AMMAN 003991

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USTR FOR NOVELLI/SAUMS
TREASURY FOR OASIA
USDOC 4520/ITA/MAC/ONE/PTANOS
PASS OPIC

E.O. 12958: N/A

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SUBJECT: Secretary Powell/Trade Rep Zoellick Discuss
Middle East Free Trade Initiative with Arab Ministers

SENSITIVE BUT UNCLASSIFIED

Introduction and Summary

[1](#)1. (SBU) King Abdullah convened a breakfast meeting June 23 with Secretary Powell and Trade Representative Zoellick at the World Economic Forum (WEF) meeting in Jordan to discuss the President's Middle East free trade initiative with the heads of Arab delegations to the WEF. Participating Arab ministers responded enthusiastically to presentations by Secretary Powell and USTR Zoellick on the President's free-trade vision and the steps required to realize it. They noted the linkages between trade, economic and social development, and regional peace and security. They also made constructive points about the practicalities of implementing the ambitious agenda and the opportunity offered by free trade between the region and the United States. End Summary

King Abdullah Welcomes U.S. Initiative

[1](#)2. (SBU) The King opened the discussion by welcoming the trade initiative for the Middle East that the President announced in his University of South Carolina speech. He described how Jordan's economy had benefited from opening to international trade and investment, including the Free Trade Agreement and Bilateral Investment Treaty it concluded with the United States. Annual trade between the U.S. and Jordan increased from under \$20 million to over \$500 million in five years. Over 30,000 new jobs were created and over \$100 million in new Foreign Direct Investment (FDI) was attracted to the country. At the same time, the King warned that opening an economy was hard work: Jordan enacted new laws protecting intellectual property, the environment and labor rights, and had reformed its investment and trade laws and regulations.

Secretary: Trade Part of the President's Vision for Region

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[1](#)3. (SBU) Secretary Powell described how the President's goal of a free trade area in the Middle East within ten years fits with our vision for engaging with the region. Building peace means creating economic security and opportunity for the large number of young people entering the region's workforce. As countries drop trade barriers, the Middle East Partnership Initiative (MEPI) would help countries invest in their future through programs supporting education, political reform and empowering women. The Secretary said that it was important that countries act now, and pointed to Jordan as an example of the great potential of trade to generate income and jobs when a country takes the initiative to change. The President, the Secretary affirmed, is totally committed to this vision for the region.

Zoellick: A Step by Step Process to Regional Free Trade

[1](#)4. (SBU) Foreshadowing the speech to the WEF plenary assembly he would deliver later that morning, USTR Zoellick took the floor to describe how the United States foresaw realizing the President's regional trade vision. He said that the United States needed first to listen and learn from its partners in the region. Since different countries were at different stages in opening to international trade, it would be necessary to customize our interaction to their individual needs. Thus,

Ambassador Zoellick foresaw the following order of actions.

- 1) Working to bring countries not currently members of the WTO into that organization.
- 2) Expanding the region's use of Generalized System of Preferences (GSP) benefits. (The Ambassador compared the \$300 million the region currently exports to the U.S. under GSP with the \$2 billion per year exported by Brazil under the program.)
- 3) Negotiating Trade and Investment Framework Agreements (TIFAs) with countries that do not Currently have such agreements with the United States.
- 4) Concluding Bilateral Investment Treaties (BITs) with countries that do not yet have them.
- 5) Building a comprehensive FTA relationship with and among the countries of the region and the United States.

In this process, countries like Jordan, Morocco, and Bahrain -- which either already have or will be negotiating and concluding FTAs with the United States -- will serve as models and sub-regional hubs for building a regional system.

15. (SBU) This process would, the Ambassador said, encourage not only greater trade between the United States and the region, but greater trade within the region as well. Cumulation of origin among countries that are working toward FTA's with countries that already have FTA's would be an important way to encourage intra-regional trade. Countries with cumulation might then be drawn together into regional arrangements. At the same time, the United States would provide assistance, particularly through the MEPI program, to help countries develop their capacities to negotiate and implement free trade agreements and to develop their economies and societies to be ready to take greater advantage of a stronger relationship with the international trading system. For example, U.S. assistance could help countries develop stronger institutions to oversee investment.

Arab Ministers Welcoming and Constructive

16. (SBU) Ministers from Arab countries attending the breakfast joined King Abdullah in welcoming the President's initiative and appreciated the presentations of Secretary Powell and Ambassador Zoellick. They also made the following specific points:

-- Palestinian Trade Minister Maher Masri said that there had been an implicit agreement at the Camp David talks that the PNA should become an observer in the WTO. He hoped that this would occur and appreciated the technical and political support of breakfast participants to that end. Ambassador Zoellick called this an "excellent idea" on which he hoped to work closely with Secretary Powell. He noted the U.S. support provided through USAID to reform Palestinian commercial law and promote small business.

-- Foreign Minister Hamad bin Jassem of Qatar proposed a committee be formed to meet on a regular basis to work out how to solve issues in countries and regions and keep up the momentum of the initiative. Noting a hundred-fold increase in U.S.-Qatari investment, he added that Qatar was in the process of creating an investment authority.

-- Observing that different countries were at different stages in their discussions of FTAs with the U.S., Egypt's Foreign Minister Muhammad Maher asked if the President's idea was to have a set of bilateral agreements that would eventually be bound up in a regional agreement, or for the two processes to proceed in parallel. Ambassador Zoellick replied it was most likely that bilateral agreements would be connected over time, perhaps initially on a sub-regional level. Referring to a recent move by the Egyptian foreign ministry to overrule the trade ministry on a key trade decision, Zoellick also said it was critical that countries be completely committed to the process of economic opening. The initiative and momentum had to come from the countries within the region, he said.

-- Finance and National Economy Minister Saif of Bahrain especially welcomed U.S. assistance on capacity building and technical assistance to help increase trade flows. He hoped agencies like the U.S. Export Import Bank and OPIC would expand their activities in the region. He

also suggested "offset" agreements were potentially useful tools to encourage investment in the region.

-- Omani Foreign Minister Yusef bin Alawi said Oman was interested in "joining hands" with the United States, potentially through a TIFA, but hoped the United States' commitment over time would match its words now. Ambassador Zoellick said the President's effort to obtain Trade Promotion Authority and extension of preferential arrangements including GSP showed his commitment to free trade. Jordan had shown it was possible move quickly in trade negotiations. Waiting for legislation like the Baucus/McCain proposals (which would legislatively create new regional trade preferences) could take a long time, Zoellick said.

-- Foreign Cooperation Minister al-Fasi said Morocco had been very pleased that in its FTA negotiations the United States had been willing to take into account Morocco's level of development and the sensitivity of certain sectors, particularly agriculture. He hoped programs like the Millennium Challenge Account and MEPI would help Morocco and other countries get through the difficult period of social and economic transition to free trade. Ambassador Zoellick agreed the key to success was creating jobs, and noted the increased interest U.S. companies were showing in investing in Morocco since the start of FTA negotiations.

-- Arab League Secretary General Amer Moussa said the President's initiative was highly commendable and called on Arab countries to engage. He thought the Arab League could play a role in helping members share experiences and prepare for negotiations. He added that he thought regional negotiations with the U.S. would need to be coordinated with parallel trade negotiations with the European Union. Finally, he hoped that these processes would give "a shot in the arm" to the Arab League's effort to negotiate a regional free trade agreement by 2005 (see 02 Amman 5212).

-- Mohamed Jouini, Tunisia's Development and International Cooperation Minister, pointed to Tunisia's positive experience in opening its economy, having been the first in the region to negotiate an EU Partnership Agreement. He highlighted the connection between trade and investment and noted the importance of investing in human resources, especially to take advantage of high value-added opportunities.

-- Taking the floor for the PNA, Foreign Minister Nabil Sha'ath called on Secretary Powell to make trade the "first priority" in the Road Map to peace through relaxations of controls on movements of Palestinians.

-- Finally, Jordan's Trade Minister Salah al-Bashir suggested that to keep up the momentum of this meeting, ministers agree to meet again with U.S. representatives to discuss ways to move forward.

Conclusion and Comment

17. (SBU) In a press conference with Secretary Powell, Ambassador Zoellick, and Trade Minister al-Bashir immediately following the breakfast, Jordanian Foreign Minister Marwan Muasher read an agreed statement that expressed the hope that the dialogue begun over breakfast would continue. Participating Arab ministers seemed both enthusiastic about the U.S. initiative and sober-minded about the challenges such an effort would entail. A recurring theme of the breakfast was also the mutually supportive relationships between the Free Trade Initiative, MEPI and the efforts to establish broad peace and security in the region.

18. (U) (USTR did not have the opportunity to clear this report prior to departing the region.)

Participants

King Abdullah of Jordan
Prince Hamza, Crown Prince of Jordan
Prince Feisal, Chief of Staff, Royal Jordanian Air Force
Prime Minister Ali Abul Ragheb of Jordan
Trade and Industry Minister Salah Bashir of Jordan
Foreign Minister Marwan Muasher of Jordan
Planning Minister Bassem Awadallah of Jordan

Mr. Abdulla Hassan Saif, Finance and National Economy
Minister of Bahrain
HH Hamad bin Jassem, Foreign Minister of Qatar
Mr. Ahmad Maher, Foreign Minister of Egypt

Mr. Yousef bin Alawi, Foreign Minister of Oman
Dr. Nabil Shaath, Foreign Minister, PNA
Mr. Maher Masri, Economy Minister, PNA
Sheikh Fahem Kasemi, Economy & Trade Minister, UAE
Mohamed Al Nouri Aljuweini, Development and International
Cooperation Minister, Tunisia
Mr. Khaled Rajeh al-Sheikh, Trade and Industry Minister,
Yemen
Mr. Al-Tayeb Al-Fahri Al-Fasi, Minister of State for
Foreign Affairs, Morocco
Mr. Abdullah al-Yarza, Minister of State, Saudi Arabia
(head of delegation)
Prince Sultan bin Salman Abdul Aziz, Saudi Arabia
Prince Turki bin Faisal, Director of Islamic Research
Studies, Saudi Arabia
Mr. Amre Moussa, Secretary General of the Arab League

Secretary of State Colin Powell

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U.S. Trade Representative Robert Zoellick
Ambassador Edward Gnehm
Assistant Secretary of State William Burns
Assistant Secretary of State Richard Boucher
Assistant U.S. Trade Representative Catherine Novelli
Assistant U.S. Trade Representative Christopher Padilla
Deputy Assistant Secretary of State Shaun Donnelly
Deputy Assistant Secretary of State Elizabeth Cheney
Craig Kelly, Advisor to Secretary Powell
National Security Council Director Daniel Sullivan
Emb Amman Econ Counselor Tom Goldberger (notetaker)

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